

1997

Alternative Minimum Tax and
Credit Limitations — Fiduciaries

P (541)

Attach this schedule to Form 541.

Name(s) as shown on Form 541

Federal employer identification number

Part I Fiduciary's Share of Alternative Minimum Taxable Income (AMTI)

1	Adjusted total income (or loss). Enter the amount from Form 541, line 17.	1		
2	Net operating loss deduction, if any, from Form 541, line 15a. Enter as a positive amount	2		
3	Add lines 1 and 2.	3		

Adjustments and tax preference items:

4	a	Interest	4a		
	b	Personal property taxes and real property taxes	4b		
	c	Miscellaneous itemized deductions from Form 541, line 15b	4c		
	d	Refund of personal property taxes and real property taxes	4d	()
	e	Depreciation of property placed in service after 1986	4e		
	f	Circulation and research and experimental expenditures paid or incurred after 1986	4f		
	g	Mining exploration and development costs paid or incurred after 1986	4g		
	h	Long-term contracts entered into after February 28, 1986	4h		
	i	Amortization of pollution control facilities placed in service after 1986	4i		
	j	Installment sales of certain property	4j		
	k	Adjusted gain or loss (including incentive stock options)	4k		
	l	Certain loss limitations	4l		
	m	Tax shelter farm activities	4m		
	n	Passive activities	4n		
	o	Beneficiaries of other trusts or decedent's estates	4o		
	p	Appreciated property charitable deduction	4p		
	q	Depletion	4q		
	r	Accelerated depreciation of real property placed in service before 1987	4r		
	s	Accelerated depreciation of leased personal property placed in service before 1987	4s		
	t	Intangible drilling costs	4t		
	u	California qualified stock options	4u		
	v	Other adjustments	4v		

5	Combine line 4a through line 4v.	5		
6	Add line 3 and line 5.	6		

Alternative minimum taxable income deduction and exclusion:

7	a	Alternative minimum tax NOL deduction. Do not enter more than 90% of line 6. See instructions	7a		
	b	AMTI exclusion. See instructions	7b		
	c	Add line 7a and line 7b	7c		
8		Adjusted alternative minimum taxable income. Subtract line 7c from line 6	8		
9		Income distribution deduction from Part II, line 15	9		
10		Fiduciary's share of alternative minimum taxable income. Subtract line 9 from line 8	10		



If line 10 is \$22,500 or less and you are not claiming any credits, do not complete Part III and Part IV of this schedule.

Part II Income Distribution Deduction on an Alternative Minimum Tax (AMT) Basis

1	Adjusted alternative minimum taxable income from Part I, line 8	1		
2	Adjusted tax-exempt interest	2		
3	Net capital gains from Schedule D (541), line 9, column (a). If zero or less, enter -0-	3		
4	Capital gains allocable to corpus paid or set aside for charitable purposes from Schedule A (541), line 4	4		
5	Capital gains paid or permanently set aside for charitable purposes from current year's income. (See instructions)	5		
6	Capital gains computed on an alternative minimum tax basis included in Part I, line 8.	6	()
7	Capital losses computed on an alternative minimum tax basis included in Part I, line 8. Enter as a positive amount	7		
8	Distributable net alternative minimum taxable income (DNAMTI). Combine line 1 through line 7.	8		
9	Income required to be distributed currently from Schedule B (541), line 10	9		
10	Other amounts paid, credited or required to be distributed from Schedule B (541), line 11	10		
11	Total distributions. Add line 9 and line 10.	11		
12	Tax-exempt income included on line 11.	12		
13	Tentative income distribution deduction. Subtract line 12 from line 11	13		
14	Tentative income distribution deduction. Subtract line 2 from line 8	14		
15	Income distribution deduction on an alternative minimum tax basis. Enter the smaller of line 13 or line 14 here and on Part I, line 9	15		

Part III Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

1	Enter the amount from Part I, line 10	1		
2	Exemption amount.	2	\$22,500	
3	Phase-out of exemption amount	3	\$75,000	
4	Subtract line 3 from line 1. If zero or less, enter -0-	4		
5	Multiply line 4 by 25% (.25)	5		
6	Subtract line 5 from line 2. If zero or less, enter -0-	6		
7	Subtract line 6 from line 1. If zero or less, enter -0-	7		
8	Tentative minimum tax. Multiply line 7 by 7% (.07).	8		
9	a Regular tax before credits from Form 541, line 21a. See instructions.	9a		
	b IRC Section 644 tax, if any, from Form 541, line 21b	9b		
	c Add line 9a and line 9b	9c		
10	Alternative minimum tax. Subtract line 9c from line 8. If zero or less, enter -0-. If there are no Part V, Section C credits, also enter this amount on Form 541, line 26 or Form 109, line 19	10		

If line 8 is more than zero, continue to Part IV.



Part IV Exemption Credit Limitations — Tax in excess of tentative minimum tax

1	Enter regular tax from Form 541, line 21a	1		
2	Enter tentative minimum tax from Part III, line 8	2		
3	Subtract line 2 from line 1. If zero or less, enter -0-	3		
4	Exemption credit from Form 541, line 22. Do not enter more than the amount on line 3. If your exemption credit is greater than line 3, you must reduce the amount shown on Form 541, line 22, to the amount shown on line 3	4		

Part V Credits that reduce tax

5	Enter the total of Form 541, line 21, minus Form 541, line 22, but not less than zero (use refigured amount if exemption credit is limited by line 3).	5		
6	Tentative minimum tax from Part III, line 8	6		

	(a) Credit amount	(b) Credit used this year	(c) Tax balance that may be offset by credits	(d) Credit carryover
Section A – Credits that reduce excess tax.				
7 Subtract line 6 from line 5. If zero or less, enter -0- and see instructions. This is your excess tax which may be offset by credits	7			
A1 Credits that reduce excess tax and have no carryover provisions.				
8 Code: 162 Prison inmate labor credit	8			
9 Code: 169 Enterprise Zone employee credit	9			
A2 Credits that reduce excess tax and have carryover provisions.				
See instructions.				
10 Code: ____ Credit Name: _____	10			
11 Code: ____ Credit Name: _____	11			
12 Code: ____ Credit Name: _____	12			
13 Code: ____ Credit Name: _____	13			
14 Code: 188 Credit for prior year alternative minimum tax	14			
Section B – Credits that may reduce tax below tentative minimum tax.				
15 If Part V, line 7 is zero, enter the amount from line 5. If line 7 is more than zero, enter the total of line 6 and the last entry in column (c).	15			
B1 Credits that reduce net tax and have carryover provisions.				
See instructions.				
16 Code: ____ Credit Name: _____	16			
17 Code: ____ Credit Name: _____	17			
18 Code: ____ Credit Name: _____	18			
19 Code: ____ Credit Name: _____	19			
B2 Credits that reduce net tax and have no carryover provisions.				
20 Code: 187 Other state tax credit	20			
Section C – Credits that may reduce alternative minimum tax.				
21 Enter your alternative minimum tax from Side 2, Part III, line 10	21			
22 Code: 180 Solar energy credit carryover from Section B1, column (d).	22			
23 Code: 181 Commercial solar energy credit carryover from Section B1, column (d)	23			
24 Adjusted AMT. Enter the balance from line 23, column (c) here and on Form 541, line 26	24			



Instructions for Schedule P (541)

Alternative Minimum Tax and Credit Limitations – Fiduciaries

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1997**, and to the California Revenue and Taxation Code (R&TC).

General Information

Due to California legislation enacted in 1997, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1997, and to selected provisions of the federal Taxpayer Relief Act of 1997 (Public Law 105-34).

Changes you should note:

- A line has been added for California qualified stock options (CQSOs). See the instructions for line 4u.
- California law has conformed to the federal limitation of 40% of alternative minimum tax (AMT) as a benefit limit for intangible drilling costs for independent producers.
- The depreciation benefits extended to grapevines infested with phylloxera has been extended to grapevines infested with Pierce's Disease.
- A line has been added for IRC Section 1202 exclusions, as modified by California R&TC Section 18152.5. See the instructions for line 10.
- California has not conformed to the federal provision removing installment sales of certain property from the AMT calculation. See line 4j instructions.
- California has not conformed to the federal provision reducing the preference portion of the IRC Section 1202 to 42%.

NOTE: California has conformed to federal provisions related to electing small business trusts (ESBTs) owning stock in S corporations. Do not include in the AMT computation items of income or deductions, nor taxes attributable to the ESBTs' ownership of S corporation stock. See the instructions for Form 541 for more information.

As the result of California legislation enacted in 1996, for qualified taxpayers, alternative minimum taxable income (AMTI) shall not include income, adjustments and preference items attributable to any trade or business. See General Information G, Alternative Minimum Taxable Income (AMTI) Exclusion, for more information.

A Purpose

California tax law gives special treatment to some items of income and allows special deductions and credits for some items of expense. Many taxpayers who benefit from these provisions must pay at least a minimum amount of tax, the AMT, and/or limit the amount of their credits.

B Who Must File

Fiduciaries must use Schedule P (541) to figure the:

- Income distribution deduction on an alternative minimum tax (AMT) basis;
- Estate's or trust's AMTI; and
- Estate's or trust's AMT.

Fiduciaries must also use Schedule P (541) to:

- Figure credits that must be limited by the tentative minimum tax (TMT) (Part III, line 8);
- Figure credits that may reduce the AMT (Part III, line 10); or
- Claim more than one credit.

Also see Schedule P (541), Part IV and Part V.

Every estate or trust that takes an income distribution deduction under IRC Section 651 or Section 661 must complete Schedule P (541), Part I, to figure its AMTI, and Part II to figure the income distribution deduction on an AMT basis. Part III should be completed only if the estate or trust is liable for AMT (Part I, line 10 is more than \$22,500) or is claiming credits. In all instances, attach Schedule P (541) to Form 541.

Individuals who were residents of California for the entire taxable year must use Schedule P (540); nonresidents and part-year residents must use Schedule P (540NR); estates or trusts must use Schedule P (541); and corporations must use Schedule P (100).

C Recordkeeping

To determine AMT for the estate or trust, you need to refigure some items that you figured for regular tax purposes. It may be helpful to complete the applicable tax form a second time. If you do complete other forms in figuring AMT, please clearly write "AMT schedule" across the top of each form and attach them to the return.

For regular tax, some deductions may result in carryovers to future taxable years. Examples are investment interest expense, net operating loss (NOL) and capital loss. Because you may have to refigure

these items to determine AMT for the estate or trust, the carryover amount may be different for AMT than for regular tax. Although the carryovers that you figure for AMT do not affect the carryovers for regular tax, you must keep track of the AMT carryovers in order to complete your Schedule P (541) in future years.

D Partners, Shareholders, Etc.

If the estate or trust is a partner in a partnership, a shareholder of an S corporation or a member of a limited liability company (LLC), you must take into account the estate's or trust's distributive share of income and deductions that enter into the computation of the estate's or trust's adjustments and tax preference items.

If the estate or trust is a beneficiary of another estate or trust, you must include the adjustment for AMT shown on Schedule K-1 (541), Beneficiary's Share of Income, Deductions, Credits, etc., line 8.

E Allocation of Deductions to Beneficiaries

The distributable net AMTI of the estate or trust does not include amounts of depreciation, depletion or amortization that are allocated to the beneficiaries, just as the distributable net income of the estate or trust does not include these items for regular tax.

Report separately on Schedule K-1 (541), line 11, any adjustments or tax preferences attributable to depreciation, depletion or amortization that were allocated to beneficiaries.

F Optional Write-off for Certain Adjustment and Tax Preferences

Under IRC Section 59(e), the estate or trust may elect to deduct certain adjustment and tax preference items ratably over a period of time. If this election is made, the optional write-off period is used for regular tax and there is no AMT adjustment on Schedule P (541). The items for which this election can be made are:

- Circulation expenditures under IRC Section 173(a);
- Research and experimental expenditures under IRC Section 174(a);
- Intangible drilling and developmental expenditures under IRC Section 263(c);
- Development expenditures for mines and natural deposits under IRC Section 616(a);
- Mining and exploration expenditures under IRC Section 617(a); and
- Grapevines replanted as a result of phylloxera infestation or Pierce's Disease.

The estate or trust may elect to deduct circulation expenditures over 3 years and intangible drilling and developmental expenditures over 60 months. The estate or trust may elect to deduct the remaining items over 10 years. For intangible drilling and developmental expenditures, the write-off period begins with the month the expenditure was paid or incurred.

The election must be made in the year of the expenditure and may be revoked only with the consent of the Franchise Tax Board (FTB). If the estate or trust made the election for any of the above items, do not adjust for those items on this schedule. See IRC Section 59(e) for more information.

Credit for prior year alternative minimum tax

If the estate or trust paid AMT in a prior year, it may be able to claim a credit in 1997. Get form FTB 3510, Credit for Prior Year Alternative Minimum Tax — Individuals or Fiduciaries, to see if the estate or trust qualifies for a minimum tax credit.

Additional information

For more information, get federal Form 1041, Schedule I, Alternative Minimum Tax — Fiduciaries.

G Alternative Minimum Taxable Income (AMTI) Exclusion

A qualified taxpayer shall exclude income, positive and negative adjustments and preference items attributable to any trade or business when figuring AMTI. You are a qualified taxpayer if you:

- Own or have an ownership interest in a trade or business; **and**
- Have **aggregate gross receipts, less returns and allowances**, during the taxable year of less than \$1,000,000 from **all** trades or businesses for which you are the owner or have an ownership interest. Gross receipts may include, but are not limited to, items reported on federal Schedules C, D, E (other than income from a trust) or F and from federal

Form 4797 (figured in accordance with California law) or California Schedule D-1 (if required to complete it) that are associated with a trade or business. In the case of an ownership interest, you include only the proportional share of gross receipts of any trade or business from a partnership, S corporation, regulated investment company (RIC), a real estate investment trust (REIT) or real estate mortgage investment conduit (REMIC) in accordance with your ownership interest in the enterprise. Apply the \$1,000,000 test to the return regardless of filing status. The threshold does not become \$2,000,000 for married filing joint taxpayers.

“Aggregate gross receipts, less returns and allowances” means the sum of the gross receipts of the trades or businesses which you own and the **proportionate interest** of the gross receipts of the trades or businesses which you own and of pass-through entities in which you hold an interest.

“Gross receipts, less returns and allowances” means the sum of the gross receipts from the production of business income, as defined in R&TC Section 25120(a), and the gross receipts from the production of nonbusiness income, as defined in R&TC Section 25120(d).

“Proportionate interest” means:

1. In the case of a pass-through entity which reports a profit for the taxable or income year, your profit interest in the entity at the end of your taxable year.
2. In the case of a pass-through entity which reports a loss for the taxable or income year, your loss interest in the entity at the end of your taxable year.
3. In the case of a pass-through entity which is sold or liquidates during the taxable or income year, your capital account interest in the entity at the time of the sale or liquidation.

“Proportionate interest” includes an interest in a pass-through entity including a partnership, S corporation, RIC, REIT or REMIC. If you are a qualified taxpayer, in Part I:

- Do not include any positive or negative adjustments or preference items attributable to any trade or business; and
- Enter all taxable income attributable to any trade or business on line 7b.

- When completing line 4f, refigure the gross investment income, any net gain from the disposition of property held for investment and any investment expenses, by taking into account all of the AMT adjustments and tax preferences that apply.

The AMT adjustment is the difference between the AMT form FTB 3526, line 8 and the regular tax form FTB 3526, line 8. If the investment interest expense figured for AMT is more than that figured for regular tax, enter the adjustment as a negative amount.

Line 4b – Personal property taxes and real property taxes

Enter on this line any state and local personal property taxes and state, local or foreign real property taxes that are included on Form 541, line 11.

Line 4c – Miscellaneous itemized deductions from Form 541, line 15b

Miscellaneous itemized deductions subject to the 2% AGI limitation are not deductible for AMT purposes.

Line 4d – Refund of personal property taxes and real property taxes

Enter on this line any refunds of taxes the estate or trust received in 1997 if the taxes:

- Are those described in line 4b above;
- Are attributable to a taxable year after 1986; and
- Were deducted in a taxable year after 1986.

Line 4e – Post-1986 depreciation

If you filed federal Schedule(s) C, E or F and have tangible property that you began depreciating after 1986, you must use the Alternative Depreciation System (ADS) to calculate AMT depreciation as follows:

Residential rental property and nonresidential real property: Use the straight-line method over 40 years.

Other tangible property: If you used the straight-line method for regular tax purposes, you must use that method over the property's ADS life. For all other tangible property placed in service after March 1, 1986, use the 150% declining-balance method over the property's ADS life (switching to the straight line method in the first year it yields a larger deduction). For tangible property not assigned a class life, use 12 years.

For more information, refer to federal Form 1041, Schedule I; federal Publication 946, How to Depreciate Property; or IRC Section 168(g).

Certain grapevines: Grapevines that were replanted as a result of phylloxera infestation or Pierce's Disease and are being depreciated over a 5-year period must be depreciated over a 10-year period.

Partners, LLC members or S corporation shareholders: Enter the amount shown on the Schedule K-1 (565, 568 or 100S) issued by your partnership, LLC or S corporation for post-1986 depreciation.

Enter on line 4e the difference between depreciation for regular tax and depreciation for AMT. To figure the AMT adjustment on this line, subtract the depreciation figure calculated for AMT from the depreciation allowed for regular tax. If the depreciation calculated for AMT is greater than the depreciation allowed for regular tax, enter the adjustment as a negative amount. Do not include depreciation from:

- An activity for which the estate or trust is not at risk;
- Amounts received from a partnership, LLC or S corporation if the basis limitations under IRC Section 704(d) or Section 1366(d) apply;
- A passive activity; or
- A tax shelter farm activity.

Instead, include these depreciation adjustments when figuring the adjustments on line 4l, line 4m or line 4n, whichever applies.

Line 4f – Circulation and research and experimental expenditures paid or incurred after 1986

If the estate or trust elected the optional 3-year write-off period for circulation expenditures or the optional 10-year write-off period for research and experimental expenditures under IRC Section 59(e), skip this line.

Circulation expenditures. For regular tax, IRC Section 173 allows a deduction for the full amount of circulation expenditures in the taxable year paid or incurred. For AMT, these expenditures must be amortized over three years beginning with the year the expenditures were paid or incurred. Enter on this line the difference between the AMT circulation amortization and the regular tax circulation deduction. If the AMT circulation amortization is more than the regular tax circulation deduction, enter the difference as a negative amount.

Research and experimental expenditures. For regular tax, IRC Section 174(a) allows a deduction for research and experimental

Specific Line Instructions

Part I – Fiduciary's Share of Alternative Minimum Taxable Income

Line 4 – For line 4a through line 4v, enter each adjustment as a positive amount unless instructed otherwise.

Line 4a – Interest

In determining the AMTI, qualified residence interest (other than qualified housing interest defined in IRC Section 56(e)) is not allowed as a deduction. Only home mortgage interest that meets the definition of “qualified housing interest” is deductible for AMT purposes. The AMT adjustment is that portion of home mortgage interest deductible for regular tax purposes that is not qualified housing interest.

Qualified housing interest. Qualified housing interest is interest paid or accrued by the trust or estate on debt incurred to acquire, construct or substantially rehabilitate a residence held by the estate or trust that secures the debt and is utilized by a beneficiary of the estate or trust as his or her primary residence or second home. The beneficiary must also have a present interest or an interest in the residuary of the estate or trust.

Investment interest expense. Also enter on this line any investment interest expense adjustment. If you completed form FTB 3526, Investment Interest Expense Deduction, refigure the investment interest expense using a second form FTB 3526. Complete that form as follows.

Complete line 1 through line 8. Follow the form FTB 3526 instructions for line 1 through line 8, except:

- When completing line 1, add to line 1 any interest expense on Schedule P (541), line 4a that was paid or accrued on indebtedness properly attributable to property held for investment within the meaning of IRC Section 163(d)(5). An example is interest on a home equity loan whose proceeds were invested in stocks or bonds. This interest might be deductible as home mortgage interest for regular tax, but is not for AMT; and
- When entering the 1996 disallowed investment interest expense on line 2, use the 1996 AMT disallowed investment interest expense, and

expenditures in the taxable year paid or incurred. For AMT, these expenditures must be amortized over a 10-year period. To figure the AMT adjustment on line 4f, subtract the amortization figured for AMT from the amortization allowed for regular tax. If the AMT amortization figure is greater than the amortization allowed for regular tax, enter the adjustment as a negative amount. Otherwise, enter the difference as a positive number.

Refer to IRC Section 56(b)(2)(B) for special rules that apply to losses related to circulation or research property.

Line 4g – Mining exploration and development costs paid or incurred after 1986

If the estate or trust elected the optional 10-year write-off under IRC Section 59(e), skip this line.

For regular tax, IRC Sections 616(a) and 617(a) allow a deduction for mining exploration and development costs in the taxable year you paid or incurred them. For AMT, these costs must be capitalized and amortized ratably over a 10-year period beginning with the taxable year the expenditures were paid or incurred. Enter on this line the difference between the AMT mining amortization and the regular tax mining deduction. If the AMT mining amortization is more than the regular tax mining deduction, enter the adjustment as a negative amount.

Refer to IRC Section 56(a)(2)(B) for special rules that apply to losses related to mining property.

Line 4h – Long-term contracts entered into after February 28, 1986

For AMT, the percentage-of-completion method of accounting described in IRC Section 460(b) generally must be used. This rule does not apply to home construction contracts (as defined in IRC Section 460(e)(6)).

To figure the AMT adjustment on line 4h, subtract the amount computed using the percentage-of-completion method from the amount allowed for regular tax. If the amount for AMT is less than the amount computed for regular tax, enter the difference as a negative amount.

Line 4i – Amortization of pollution control facilities placed in service after 1986

For regular tax, the estate or trust may elect to amortize the basis of a certified pollution control facility over 60 months. For AMT, figure depreciation under the alternative depreciation system (ADS) described in IRC Section 168(g). Use the federal Class Life Asset Depreciation Range System (ADR) under the straight-line method. To figure the AMT adjustment on line 4i, subtract the amount figured for AMT from the amount allowed for regular tax. If the AMT pollution control facilities depreciation is more than the regular tax pollution control facilities amortization, enter the difference as a negative amount.

Line 4j – Installment sales of certain property

For either of the following kinds of dispositions in which the estate or trust used the installment method for regular tax, refigure the income for AMT without regard to the installment method:

1. Any disposition after March 1, 1986, of property used or produced in a farming business that was held primarily for sale to customers.
2. Any nondealer disposition of property that occurred after August 16, 1986, but before the first day of your tax year that began in 1990, if an obligation that arose from the disposition was an installment obligation to which the proportionate disallowance rule applied.

The AMT adjustment is the total gain on disposition less the amount that would be recognized under the installment method. Enter the difference between the income that was reported for regular tax and the income for AMT as an AMT adjustment on line 4j. If the amount reported for AMT is less than that reported for regular tax, enter the difference as a negative amount.

Line 4k – Adjusted gain or loss (including incentive stock options)

The estate or trust will have an entry on this line only if it reported a gain or loss from the sale or exchange of business or income-producing property on Schedule D (541), Capital Gain and Loss, Schedule D-1, Sales of Business Property, or federal Form 4684, Casualties and Thefts. **Note:** Generally, if the estate or trust reported a gain or loss from the sale or exchange of mutual funds, stocks or bonds, there will not be an entry on this line.

Figure the AMT adjustment for this line as follows:

Step 1 – Refigure the adjusted basis of the asset sold by taking into account any AMT adjustments you made this year or in previous years for depreciation (see line 4e, line 4r and line 4s), incentive stock options (see line 4k), circulation and research and

experimental expenditures (see line 4f), pollution control facilities (see line 4i), and mining cost (see line 4g).

Step 2 – Refigure your gain or loss using the adjusted basis figured in Step 1.

Step 3 – Figure the difference between the refigured gain or loss for AMT and the gain or loss reported for regular tax. Enter the result on line 4k. Enter the difference as a negative amount if:

- The AMT gain is less than the regular tax gain;
- The AMT loss is more than the regular tax loss; or
- You have an AMT loss and a regular tax gain.

Incentive stock options (ISOs). For regular tax, no income is recognized when an ISO (as defined in IRC Section 422(b)) is granted or exercised. However, this rule does not apply for AMT for ISOs exercised after December 31, 1987. Instead, the estate or trust must include the excess, if any, of:

- The fair market value of the option (determined without regard to any lapse restriction) at the first time the rights in the option become transferable or when these rights are no longer subject to a substantial risk of forfeiture, over
- The amount the estate or trust paid for the option.

Increase the AMT basis of any stock acquired through the exercise of an ISO by the amount of the adjustment. Do not make an AMT adjustment if the estate or trust exercised an ISO and disposed of that stock in the same year.

Line 4l – Certain loss limitations

Important: If you include adjustments or preferences on this line, **do not** include them on any other line of this schedule. If the loss is from a passive activity, use line 4n instead. If the loss is from a tax shelter farm activity (that is not passive), use line 4m.

For AMT, refigure certain limited losses using the AMT adjustments and tax preferences. Refigure the gains and losses from activities for which the estate or trust is not at risk. Also, refigure the basis limitations that apply to partnerships and S corporations. Refer to IRC Sections 59(h), 465, 704(d) and 1366(d).

Enter on this line the difference between AMT limited losses (from activities reported on federal Schedules C, C-EZ, E, F or federal Form 4835) and the regular tax limited losses from these activities. If the AMT limited loss is less than the regular tax limited loss, enter the difference as a negative amount.

Line 4m – Tax shelter farm activities

Important: If you include AMT adjustments or tax preferences on this line, **do not** include them on any other line of this schedule.

Complete this line only if the estate or trust has a gain or loss from a tax shelter farm activity (as defined in IRC Section 58(a)(2)) that is not a passive activity. If the tax shelter farm activity is a passive activity, you must include the gain or loss with other passive activities on line 4n.

Refigure all gains and losses reported for regular tax from tax shelter farm activities using the AMT adjustments and tax preferences.

Figure the tax shelter farm activity gain or loss for AMT using the same rules used for regular tax except:

- Do not take any recomputed loss unless the estate or trust is insolvent (see IRC Section 58(c)(1)); and
- Do not offset gains with the recomputed loss.

Instead, suspend and carry over the loss to future taxable years until:

- There is a gain in a future taxable year from that same tax shelter farm activity; or
- The activity is disposed of.

Enter on this line the difference between the tax shelter farm loss for AMT and regular tax.

Line 4n – Passive activities

Important: If you include AMT adjustments or tax preferences on this line, **do not** include them on any other line of this schedule.

The estate or trust may want to complete a second form FTB 3801, Passive Activity Loss Limitations, and the other forms or schedules on which passive activities are reported to figure this adjustment.

Several types of adjustments may be entered on this line.

Regular passive activities. Refigure the passive activity gains and losses for AMT by taking into account all AMT adjustments, tax preferences and AMT prior-year unallowed losses that apply to the passive activity. The adjustment is the difference between the AMT passive activity income or loss (from activities reported on federal Schedules C, C-EZ, E, F or federal Form 4835) and the regular tax passive activity income or loss from these activities.

Publicly traded partnership (PTP). If the estate or trust had a loss from a PTP, it will have to refigure the loss using any AMT adjustments, tax preferences and any AMT prior-year unallowed loss.

Tax shelter passive farm activities. Refigure any gain or loss from a tax shelter passive farm activity. Take into account all AMT adjustments, tax preferences and AMT prior-year unallowed losses. If the amount is a gain, it can be included on the AMT form FTB 3801; but, if it is a loss, the adjustment for tax shelter passive farm activity is the loss reported for regular tax. The AMT loss to carry over is the refigured AMT loss.

Insolvency. If, at the end of the taxable year, the liabilities of the estate or trust exceed the fair market value of its assets, increase the passive activity loss allowed by the excess (but not more than the total loss). See IRC Section 58(c)(1).

Line 4o – Beneficiaries of other trusts or decedent's estates

If the estate or trust is a beneficiary of another estate or trust, enter on this line the amount from Schedule K-1 (541), line 8. This is the estate's or trust's share of the distributable AMTI from the other estate or trust.

Line 4p – Appreciated property charitable deduction

California did not conform to the federal repeal of the tax preference for charitable contributions of appreciated tangible personal property.

For AMT, refigure the contribution deduction, including capital gain and IRC Section 1231 property, using the cost or other basis rather than the fair market value (FMV).

Do not include property for which an election was made under IRC Section 170(b)(1)(C)(iii). Figure the contribution deduction using the property's adjusted basis rather than its FMV.

Enter on this line the difference between the AMT charitable contribution and the regular tax charitable contribution.

Line 4q – Depletion

For AMT, if the depletion deduction for mines, wells and other natural deposits determined under IRC Section 611 exceeds the adjusted basis of the property at the end of the taxable year, the estate or trust will have a depletion adjustment. To figure the adjusted basis, use the rules in IRC Section 1016 but do not reduce the adjusted basis by current-year depletion. Figure the excess amount separately for each property. Enter on this line only the depletion amount that exceeds the adjusted basis. Get the instructions to federal Form 1041, Schedule I, line 4q for more information.

In 1993, California conformed to the federal repeal of the AMT depletion adjustment for independent oil and gas producers and royalty owners. See federal Form 6251, Alternative Minimum Tax — Individuals, and instructions. However, your California depletion costs may continue to be different from the federal amounts because of prior differences in law and different bases.

Line 4r – Accelerated depreciation of real property placed in service before 1987

For AMT, use the straight line method to figure depreciation on this property. Figure the depreciation separately for each property.

15- or 18-year real property. Use the straight line method over the same number of years using the half-year convention and no salvage value.

Low-income housing property. Use the straight line method over 15 years.

Enter on this line the excess of the regular tax depreciation over the AMT depreciation. Do not enter a negative amount on this line.

Line 4s – Accelerated depreciation of leased personal property placed in service before 1987

For AMT purposes, use the straight line method to figure depreciation on leased personal property. Figure the depreciation separately for each property.

For leased recovery property, other than 15- or 18-year real property or low-income housing, figure the depreciation using the straight line method with a half-year convention, no salvage value and the following recovery period:

5-year property	8 years
10-year property	15 years
15-year public utility property	22 years

Enter on this line the excess of the regular tax depreciation over the AMT depreciation. Do not enter a negative amount on this line.

Line 4t – Intangible drilling costs

If the estate or trust elected the optional 60-month write-off under IRC Section 59(e) for all property in this category, skip this line.

For AMT, intangible drilling costs (IDCs) from oil, gas and geothermal wells are preferences if the excess IDCs exceed 65% of the net income from the wells. Figure the preference for oil and gas properties separate from geothermal properties. To figure excess IDCs:

- Figure the amount of the IDCs allowed for regular tax under IRC Section 263(c). Do not include any deduction for nonproductive wells. Refigure the IDCs allowed for AMT by amortizing them over 120 months, starting with the month the well was placed in production. Then subtract the AMT IDCs from the regular tax IDCs to get the excess IDCs. The estate or trust may elect to use any other method that is allowed in determining cost depletion.
- Figure net income by reducing the gross income, from all oil, gas and geothermal wells, that was received or accrued during the taxable year by any deductions allocable to these properties (reduced by the excess IDCs). Use only income and deductions allowed for AMT.
- Multiply the net income by 65% (.65). Subtract the result from the excess IDCs figured in Step A. This is the excess IDCs. Enter the result on line 5.

Exception. The preference for IDCs from oil and gas wells does not apply to taxpayers who are independent producers (i.e., not integrated oil companies as defined in IRC Section 291(b)(4)). However, this benefit may be limited. First, figure the IDC preference as if this exception did not apply. Then, for purposes of this exception, complete Schedule P (541) through line 6, including the IDC preference. If the amount of the IDC preference exceeds 40% of the amount figured for line 6, enter the excess on line 4t (the benefit of this exception is limited). If the amount of the IDC preference is equal to or less than 40% of the amount figured for line 6, do not enter an amount on line 4t (the benefit of this exception is not limited).

Line 4u – California qualified stock options

Include the amount of compensation excluded from the employee's gross income for regular tax from the exercise of California qualified stock options (CQSOs). This amount is the difference between the fair market value of the corporation's stock on the date the option is exercised and the amount the employee paid for the stock.

Line 4v – Other adjustments

Include on this line:

- Patron's adjustment.** Distributions the estate or trust received from a cooperative may be includible in income. Unless the distributions are nontaxable, include on line 4v the total AMT patronage dividend and per-unit retain allocation adjustment reported to the estate or trust by the cooperative.
- Related adjustments.** AMT adjustments and tax preferences may affect deductions that are based on an income limit other than AGI or modified AGI (e.g., farm conservation expenses). Refigure these deductions using the income limit as modified for AMT. Include the difference between the regular tax and AMT deduction on line 4v. If the AMT deduction is more than the regular tax deduction, include the difference as a negative amount.
- IRC 1202 Exclusion (R&T 18152.5)** IRC Section 1202 provides that 50% of the gain on sale of certain small business stock held for five years and issued after August 10, 1993, and before January 1, 1999, may be excluded from income. This is modified to require that 80% of the issuing corporation's payroll, as measured by total dollar value, be attributable to employment located within California. If the estate or trust claimed the exclusion under IRC Section 1202 for gain on qualified small business stock, multiply the amount of the gain excluded from income by 50% (.50). Enter the result as a positive number.

Note: Do not make an adjustment on line 4v for an item you refigured on another line of Schedule P (541).

Line 7a – Alternative minimum tax NOL deduction

For loss years beginning after 1986, reduce any net operating loss (NOL) by any positive AMT adjustments in that year. Increase the NOL by negative adjustments. Also, reduce the NOL by any tax preferences, but only to the extent they increase the NOL figured for regular tax.

For loss years beginning before 1987, refigure the AMT NOL deduction using the rules in IRC Section 56(d)(2)(B).

Enter on line 7 the smaller of the AMT NOL deduction or 90% (.9) of the amount shown on line 6. If the 90% amount is smaller, carry over the difference. The treatment of the NOL for AMT does not affect the amount of the NOL for regular tax.

Line 7b – AMTI Exclusion

Beginning in 1996, qualified taxpayers shall exclude income from any trade or business when figuring AMTI. If you are a qualified

taxpayer (refer to General Information G, Alternative Minimum Taxable Income (AMTI) Exclusion), enter your taxable trade or business income on line 7b. If less than zero, enter -0-.

Part II – Income Distribution Deduction on an Alternative Minimum Tax Basis

Line 5 – Enter any capital gains that were paid or permanently set aside for charitable purposes from the current year's income included on Form 541, Schedule A, line 3.

Line 6

& Line 7 – Capital gains and losses must take into account any basis adjustments from Part I, line 4k.

Line 15 – Income distribution deduction on an alternative minimum tax basis

Allocate the income distribution deduction computed on an AMT basis among the beneficiaries in the same manner as income was allocated for regular tax. Report each beneficiary's share on the respective Schedule K-1 (541), line 6.

Part III – Tentative Minimum Tax (TMT) and Alternative Minimum Tax (AMT) Computation

Line 9a – Enter the total of the estate's or trust's regular tax from Form 541, line 21a plus any IRC Section 667(b) tax from form FTB 5870A entered on Form 541, line 21b.

Note: Do not include the tax from Schedule G-1, Tax on Lump-Sum Distributions, entered on Form 541, line 21b, or tax attributable to an electing small business trust. For installment obligations subject to IRC Sections 453(l)(2)(B) (timeshares and residential lots) and 453A (nondealer dispositions greater than \$150,000), do not include tax increases for interest on the deferred tax liability.

Part IV – Exemption Credit Limitations

Use Part IV to determine if your exemption credits are limited.

Line 3 – If line 3 is zero or less, you cannot take your exemption credits. Enter zero here and on Form 541, line 22. If you have other credits, continue to Part V.

Part V – Credits That Reduce Tax

Complete Part V only if you have tax credits in addition to exemption credits.

Use Part V to determine the:

- Amount of credit that may be used to offset tax;
- Tax that may be offset;
- Amount of credit, if any, that may be carried over to future years; and
- Order in which to claim credits, if you have more than one credit to claim.

Before you begin Part V:

- Complete Form 541 through line 24; and
- Figure the amount of your credit(s) using the credit form or worksheet identified in the Credit Table on the following page. Be sure to attach the credit form to your return if one is required.

To complete Part V:

- Complete line 5 through line 7 to figure the amount of excess tax you may offset by credits.
- Identify in which section(s) of Part V you may take your tax credit(s). Credits without carryover provisions are listed on Schedule P in Section A1 and Section B2 and may be taken only in those sections. Credits with carryover provisions are listed on the Credit Table. The table identifies the section(s) of Part V in which you may take these tax credits.
- If you have credit(s) in Section B, be sure to complete line 15 in addition to the line(s) for your credit(s).
- If your credit is taken in Section A2 or Section B1, enter the credit code and the credit name in the space provided. Refer to the Credit Table for the credit code.
- Complete column (a) through column (d) for each line on which you are taking a credit. Refer to Column Instructions on this page.
- If your credit(s) are taken in more than one section, complete each section before going to the next section.
- Once you have completed Part V, see "How to Claim Your Credits" on the next page.

Section A Instructions

Line 7 – Subtract line 6 from line 5. If the amount is zero or less, continue to Question 1. If the amount is greater than zero, go to the Section A1 instructions.

1. Does the Credit Table show that you may take your credit ONLY in Section A1 or Section A2?

- Yes** You may not take the credit this year. Go to question 2.
- No** Go to Section B to figure the amount of credit you may take this year. Then continue to Section C if your credit is listed in that section.

2. Does the credit have carryover provisions?

- Yes** Enter the credit code, credit name and credit amount (column (a)) in the section indicated by the table. Enter -0- in column (b). Enter the credit amount in column (d). This is the amount of the credit you may carry over and use in future years.
- No** You may not take the credit this year or in future years.

Section A1 Instructions

Line 8 and Line 9 – If you have any of the credits listed in this section, complete column (a) through column (c) for each credit in the order listed.

Section A2 Instructions

Line 10 through Line 14 – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) for each credit in each section before going to the next section.

Note: Generally, it is to your advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, you may want to apply credits with no limitation on carryover first if that is more advantageous in your case.

Section B1 Instructions

Line 16 through Line 19 – Follow the Credit Table Instructions to find out in which section to claim your credit. Then complete column (a) through column (d) before going to the next section.

Note: Generally, it is to your advantage to apply credits with limited carryovers before credits with no limitation on the carryover. However, you may want to apply credits with no limitation on carryover first if that is more advantageous in your case.

Section B2 Instructions

Line 20 – If you have an other state tax credit, complete column (a) through column (d) for each credit in the order listed.

Section C Instructions

Line 22 and Line 23 – If you have any of the credits listed in this section, complete column (a) through column (d) for each credit in the order listed.

Column Instructions – In column:

- (a) Enter the amount of credit available to offset tax;
- (b) Figure the amount of credit you are able to use this year by entering the smaller of the amount in column (a) or the amount in column (c) from the previous line;
- (c) Figure the amount of tax remaining to be offset by other credits by subtracting the amount in column (b) from the balance in column (c) of the previous line; and
- (d) Enter the amount of credit carryover available to use in future years by subtracting the amount in column (b) from the amount in column (a).

Credit Table Instructions

To use the table:

1. Find your credit(s) listed in the table.
2. See which sections are identified in the columns under "Offset Tax in Section:".
3. Take the credit only in sections the table identifies for your credit.
4. Use the credit in the earliest section possible.
5. Complete each section before going to the next section.

Credit Table

Code	Current Credits	Form	Offset Tax in Section:			
209	Community Development Financial Institution Deposits Credit	N/A		A2		
205	Disabled Access for Eligible Small Businesses	FTB 3548		A2		
204	Donated Agricultural Products Transportation	FTB 3547		A2		
190	Employer Child Care Contribution	FTB 3501		A2		
189	Employer Child Care Program	FTB 3501		A2		
203	Enhanced Oil Recovery	FTB 3546		A2		
169	Enterprise Zone Employee	FTB 3553	A1			
176	Enterprise Zone Hiring & Sales or Use Tax 1 = hiring credit 2 = sales or use tax credit	FTB 3805Z		A2 ₁ A2 ₂	B1 ₁ B1 ₂	
207	Farmworker Housing – Construction	N/A		A2		
208	Farm Housing – Loan	N/A		A2		
159	Los Angeles Revitalization Zone (LARZ) Hiring & Sales or Use Tax	FTB 3806		A2	B1	
198	Local Agency Military Base Recovery Area (LAMBRA) Hiring & Sales or Use Tax	FTB 3807		A2		
172	Low-Income Housing	FTB 3521		A2	B1	
199	Manufacturers' Investment	FTB 3535		A2	B1	
187	Other State Tax Credit	Sch. S			B2	
188	Prior Year Alternative Minimum Tax	FTB 3510		A2		
162	Prison Inmate Labor	FTB 3507	A1			
177	Program Area Hiring & Sales or Use Tax (only 1996 fiscal-year pass through)	FTB 3805Z		A2	B1	
183	Research	FTB 3523		A2	B1	
206	Rice Straw	N/A		A2		
200	Salmon & Steelhead Trout Habitat Restoration	N/A		A2		
Code	Repealed Credits with Carryover Provisions	Form	Offset Tax in Section:			
175	Agricultural Products	FTB 3540		A2		
196	Commercial Solar Electric System	FTB 3540		A2	B1	
181	Commercial Solar Energy	FTB 3540		A2	B1	C
194	Employee Ridesharing	FTB 3540		A2		
	Employer Ridesharing:					
191	Large Employer					
192	Small Employer	FTB 3540		A2		
193	Transit Passes					
182	Energy Conservation	FTB 3540		A2		
160	Low-Emission Vehicles	FTB 3540		A2		
185	Orphan Drug	FTB 3540		A2	B1	
184	Political Contributions	FTB 3540		A2		
174	Recycling Equipment	FTB 3540		A2		
186	Residential Rental & Farm Sales	FTB 3540		A2		
180	Solar Energy	FTB 3540		A2	B1	C
179	Solar Pump	FTB 3540		A2		
178	Water Conservation	FTB 3540		A2		

How to claim your credits:

Form 541 filers: If only one credit is claimed, enter the credit code number and amount of the credit from column (b), Part V on Form 541, line 22. If two or more credits are claimed, add the column (b) amounts from Part V, line 8 through line 21. Enter the total on Form 541, line 22.

Form 109 filers: Add the column (b) amounts from Part V, line 8 through line 21. Enter the total on Form 109, line 16.